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DEPT FOR EUR/SCE JISMAIL, TREASURY FOR VIMAL ATUKORALA

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TAGS: [EFIN](#) [ECON](#) [AL](#)  
SUBJECT: IS ALBANIA FACING A BANKING CRISIS?

Classified By: A/DCM Paul Poletes, reasons 1.4 (b), (d)

Summary  
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¶1. (C) Despite slowing economic growth in the U.S. and EU, Albania continues to report a six percent GDP growth. However, one prominent Albanian banker worries that the rapidly rising number of non-performing retail loans could soon lead to bank failures and consolidations and weaken the banking system. Albanian Central Bank officials, however, are not concerned. They point to increasing profitability of the banking system, adequate bank capitalization, and the fact that the number of Albanian non-performing loans is still lower than some other countries in the region. End Summary.

Bad Loans - Also An Albanian Problem?  
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¶2. (C) While the rest of the world grapples with the credit crunch from bad real estate loans, Albania's economy continues to grow at a robust six percent. Although Albania has not experienced a real estate bubble brought on by loose lending standards, Lorenzo Roncari, CEO of American Bank of Albania (one of Albania's largest banks), expressed concern that the sixteen Albanian banks, in an effort to gain market share, have been overly aggressive in the consumer lending market while raising deposit interest rates to attract new clients. Some banks are even offering short-term unsecured loans at a lower interest rate than they offer their depositors.

¶3. (C) According to statistics of Albania's Central Bank (CB), four percent of all loans are classified as non-performing, which is high by western standards. In addition, seven of Albania's sixteen banks have reported losses during the first half of this year. Five of those are now at minimum capitalization while two are below. The problem may get worse since banks have no practical way to force delinquent retail borrowers to pay up. Roncari sees these trends as alarming, and described an Albanian banking system "in serious trouble."

Perhaps a Short Term Problem  
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¶4. (SBU) The banks are simply trying to get their share of Albania's huge remittance inflow, cash sent home from workers in the U.S. and Europe. Albanians still distrust the banking system, and memories of the collapse of the pyramid schemes are fresh in their minds. Instead, they have been putting their cash into real estate, sparking Albania's incredible construction boom. Since the banks have been very conservative in their mortgage lending, usually requiring a 30 percent down payment, there is little danger of a bubble-induced credit crunch.

## The CB Is Not Worried

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15. (C) Officials at the Central Bank disagreed with Roncari's gloomy assessment of the banking system. Regarding consumer loans, the head of the Supervision Department told the Embassy that these rates are short-term promotions and clients must generally satisfy certain criteria to receive the most favorable interest rates. He criticized the banks for placing somewhat misleading advertising to draw in customers, but said that the banking sector's profitability increased during the first half of 2008 over 2007. He added that other important indicators the CB watches closely, such as return on equity and capital adequacy, have either improved or are within an allowable range. And while the percentage of non-performing loans has increased, it is still well below Macedonia at 6.4 percent and Serbia at 22 percent.

Comment

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16. (C) Despite Roncari's grim prognosis, the Albanian banking system as a whole seems healthy ) a view strongly shared by the Central Bank. Most Albanian commercial banks have a foreign parent which will not let them get into too much trouble. Also, the CB seems to be doing its job well and has remained politically independent while monitoring critical parameters to keep the public from once again losing confidence in the banking system.

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